Calendar No. 438

97TH CONGRESS
2d Session

SENATE

REPORT
No. 97-312

FINANCIAL INTEGRITY ACT OF 1981

REPORT

OF THE

COMMITTEE ON GOVERNMENTAL AFFAIRS
UNITED STATES SENATE

ON

S. 864

TO AMEND THE ACCOUNTS AND AUDITING ACT OF 1950 TO REQUIRE ONGOING EVALUATIONS AND REPORTS ON THE ADEQUACY OF THE SYSTEMS OF INTERNAL ACCOUNTING AND ADMINISTRATIVE CONTROL OF EACH EXECUTIVE AGENCY

FEBRUARY 11 (legislative day, JANUARY 25), 1982.—Ordered to be printed

U.S. GOVERNMENT PRINTING OFFICE
89-010 O WASHINGTON : 1982

Approved For Release 2008/10/29 : CIA-RDP85-00003R000200010006-9

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CONTENTS

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FINANCIAL INTEGRITY ACT OF 1981

FEBRUARY 11 (legislative day, JANUARY 25), 1982.—Ordered to be printed

Mr. ROTH, from the Committee on Governmental Affairs, submitted the following

REPORT

together with

ADDITIONAL VIEWS

[To accompany S. 864]

The Committee on Foreign Relations, to which was referred the bill (S. 864) to amend the Accounts and Auditing Act of 1950 to require ongoing evaluations and reports on the adequacy of the systems of internal accounting and administrative control of each executive agency, having considered the same, reports favorably thereon with an amendment in the nature of a substitute and recommends that the bill as amended do pass.

I. GENERAL DESCRIPTION OF THE LEGISLATION

S. 864 amends the Accounting and Auditing Act of 1950 and requires ongoing evaluations of the adequacy of systems for internal accounting and administrative control of each executive agency. These evaluations are to be conducted under guidelines established by the Office of Management and Budget to determine whether each agency's internal accounting and administrative control systems are in compliance with standards prescribed for such systems by the Comptroller General. An annual statement signed by the head of each agency will certify as to the adequacy of the agency's internal accounting and administrative controls or, if necessary, outline and describe a schedule for strengthening any weaknesses the agency head has identified.

In effect, S. 864 will require each agency head to be accountable for the adequacy of his agency's systems of internal control. While the

Congress and the public hold government in general accountable for the effectiveness of the financial and accounting controls used to prevent wasteful or fraudulent spending, the establishment and maintenance of such systems has always been the specific responsibility of the heads of Federal departments and agencies. S. 864 was drafted in an attempt to clarify and reassert the resonsibility of publicly accountable top level officials in government for the efficiency and financial integrity of the programs under their supervision. The legislation is also intended to stimulate increased attention within the agencies, at all levels, to the need for strengthening internal accounting and administrative controls. Finally, the Financial Integrity Act clarifies the roles and responsibilities of the Office of Management and Budget, the Comptroller General and the agency heads in establishing and maintaining effective internal accounting and administrative controls.

II. Description and Purpose of Internal Accounting and Administrative Controls

In its simplest terms, internal controls are mechanisms and management techniques intended to ensure that agency programs are operated in a manner which ensures that Federal resources are safeguarded from fraud and agency financial records are reliable. Generally, internal controls can be divided into two interrelated aspects: administrative and accounting. Internal accounting controls are the specific mechanisms used to protect Federal resources from being wasted or misspent. Internal administrative controls form the structure to carry out agency programs and include such things as agency planning, personnel policies and budgeting. In summary, the term internal controls is broad and includes both accounting and administrative controls designed to enhance the financial integrity of agency programs.

Internal controls are objective-oriented and include varying levels of objectives from the broad and fundamental to the more specific. The fundamental objectives of an adequate system of internal controls, as mentioned earlier, include: (1) ensuring that all obligations and costs are made in compliance with applicable law; (2) protecting Federal funds, property and other assets against waste, loss or unauthorized use; and (3) ensuring that all Federal revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accurate financial reports on agency operations and ensure accountability for agency assets. Within these fundamental goals are more specific objectives such as maintenance of effective audit resolution systems within each agency, development of accurate information on the capital assets and material inventories in each agency's possession and operating efficient and accountable agency payment functions for such things as grant and loan payments.

These objectives and goals can be met by the agency through the development and use of effective control techniques. There are many such techniques available and each agency may use different types depending on their program responsibilities and functions. Common control techniques include ensuring that no individual is in a position to control all aspects of a financial transaction (segregation of duties), adequate physical security for agency property and records such as effective safes and locks, continuous and effective internal auditing to monitor the implementation of agency policies concerning internal controls and hiring well trained, competent personnel and reviewing their performance regularly. Modern administrative practices include the use of computers and other complex office machinery and these too should be incorporated into each agency's internal controls system.

Internal controls then involves much more than merely agency accounting practices. It is a complex set of objectives, policies and specific management techniques designed to ensure the accuracy and safety of agency financial activities. It is highly unlikely that every agency will require identical systems of internal controls. There will be differences in the specific objectives and strategies used by each agency to protect its financial and capital resources from exploitation. However, the fundamental objectives and general management strategies associated with internal controls in Federal agencies are the same and the Financial Integrity Act attempts to ensure that those fundamental objectives are achieved.

III. Need for the Legislation

More than 25 years prior to the enactment by the Congress of the Foreign Corrupt Practices Act mandating the maintenance of proper recordkeeping and internal accounting control systems in the private sector, provisions were enacted into law by Congress requiring the managers of all Federal departments to implement and maintain effective systems of internal control in government. These provisions were incorporated as a part of the Accounting and Auditing Act of 1950, the major Federal statutory guideline for the development and implementation of Federal accounting and financial control systems. Although there were many agencies and Federal managers who took the mandate of the 1950 act to improve and maintain agency financial control procedures seriously, the intervening period could be characterized as one in which movement toward the development of effective internal control systems was undoubtedly slower than contemplated by the drafters of the 1950 act and often marked by inadequate attention to the requirements of the new law.

The Accounting and Auditing Act of 1950 establishes the primary Federal standards for proper management of resources within the agencies. Among other things, it requires the Comptroller General, after consulting with the Director of the Office of Management and Budget and the Secretary of the Treasury, to prescribe principles, standards, and related policies for accounting throughout the Federal Government and requires the agencies to obtain the approval of the Comptroller General for their accounting and reporting systems.

While the Comptroller General has the responsibility to establish accounting principles and standards for Federal agencies under the Accounting and Auditing Act, the responsibility for developing and maintaining adequate systems of accounting and internal controls is placed on the agency heads. Accounting systems are considered an integral part of internal control systems under the act. The 1950 act also defined the general objectives which each agency's accounting and internal controls systems should provide including ensuring the full disclosures of the financial results of agency activities and ensuring effective management control and accountability for all agency funds and property.

Despite the important purposes of the 1950 act, improvements in agency accounting and internal controls have come slowly and often sporadically. Strengthening these controls has not received the attention it deserves in the executive branch. For example, more than 30 years have elapsed since the passage of the Accounting and Auditing Act and yet only 64 percent of all agency accounting systems have been approved by the Comptroller General as required by the Act. Some of the Departments with the largest budgets, including the Departments of Defense and Health and Human Services, continue to operate with accounting systems which do not have the approval of the Comptroller General. In some cases, agencies have gained the approval of the Comptroller General for their systems but the approval was granted so long ago that the systems probably should be submitted for review and approval once again. In short, compliance with the requirements of the Accounting and Auditing Act of 1950 has been discouraging and agencies have continued to spend taxpayer dollars using accounting and internal control systems which may be ineffective or seriously deficient.

The lack of strong, well-constructed internal controls can seriously undermine the integrity of agency programs. Good systems of internal control will often prevent fraud or at least make it much more likely that fraud is detected as quickly as possible. Audits and reviews conducted by agency investigators and the Inspectors General, in agencies where they exist, have been effective in detecting fraud. However, they are after-the-fact checks that can only detect fraud once it has occurred; they cannot prevent fraud from happening. Once a fraud is committed or Federal money misspent, it is difficult or impossible for the government to recover the taxpayers' money.

The Governmental Affairs Committee conducted hearings on May 19, 1981, on the problem of lax internal controls in the agencies and resultant—illegal or fraudulent spending. Chairman William V. Roth, Jr., in opening the hearings, highlighted the importance of the Financial Integrity Act and good internal controls:

> Strong internal control systems in the agencies are needed because once fraud occurs, only rarely is the taxpayers' money recovered. Federal managers do not seem to place as a high priority, the institution of strong fraud control procedures in their agencies. No one is stealing the agencies blind—they have simply decided to turn out the lights and sit in the dark.

During the hearings, representatives of the General Accounting Office presented a report to the Committee entitled "Fraud in Government Programs: How Extensive Is It? Can It Be Controlled?" which presented its findings from a survey of fraud in government programs over a 2½-year period. According to the report, some 77,000 cases of fraud were uncovered in 21 Federal agencies during the GAO's review and the costs associated with these cases which can be directly verified totaled some $210 million. Of special note, GAO found that in about 37 percent of these cases, the fraud was not detected until one or more years after it was committed. While strong internal controls may not prevent all fraud, they can at least provide better methods of detecting fraud so that those responsible do not escape punishment.

The GAO concluded in this report that strong internal controls would greatly improve agency financial operations and reduce opportunities for illegal use of Federal resources. To quote the report:

> Fraud and illegal acts against the Federal Government are a widespread problem. Once they are allowed to occur, the Government fights a losing battle because losses are seldom recovered and the perpetrators are seldom punished. Weaknesses in internal controls often allow fraud to occur. Given the poor state of controls in many programs, it is probable that most fraud remains undetected.

One of the major recommendations made by GAO in the report was that the Congress enact the Financial Integrity Act of 1980.

Good systems of internal controls are not exclusively tools for preventing fraud. They can ensure that the President, the Congress and the public is given a good accounting of the financial operations of the government and they can provide assurances that Federal resources are being spent as they are intended. In short, effective internal controls can make government more accountable to the public.

IV. Administrative Efforts to Improve Internal Controls

Since passage of the Accounting and Auditing Act of 1950, there have been many administrative efforts to improve agency internal controls. As noted previously however, agency compliance with the act remains inadequate.

Recently, efforts within the executive branch to implement improvements in agency internal controls have increased. In May of 1979, the previous administration launched the Financial Priorities Program designed to resolve major weaknesses in agency systems of financial management and control. The program began with an in depth examination of agency financial management practices and key problem areas to be resolved were identified and targeted for improvement.

Some progress was made in the Financial Priorities Program to improve agency financial management and control systems. The new administration came into office intending to improve on these efforts and make the reduction of waste and fraud in Federal programs a top priority of agency managers. On March 26, 1981, the President established by Executive order the Council on Integrity and Efficiency to spearhead the effort to reduce waste and fraud and improve agency financial management practices. The Council is composed of the Inspectors General of the major departments who have important responsibilities for stimulating improvements in agency internal controls. The Council undertook a range of improvement projects aimed at upgrading government operations including projects to enhance training for auditors and financial managers and efforts to improve agency debt collection practices. The mid-year report of the Council released in December of last year was encouraging and indicates that progress toward measurable improvements in agency financial management practices is beginning.

One result of the Council has been the development and adoption of a new OMB Circular designed specifically to encourage agency improvements in their internal controls. The Circular, A–123, Internal Control Systems, prescribes policies and procedures for Federal agencies in establishing and maintaining internal controls in their program and administrative activities. It was released on November 6 and the committee held a hearing 7 days later on November 13 to review the circular and examine in more detail the Financial Integrity Act (S. 864).

The administration, represented by Deputy Director of the Office of Management and Budget, Edwin Harper, supported the goals of S. 864 but indicated that the administration believed the new circular would prove adequate to the task of upgrading agency systems of internal control. As Dr. Harper noted:

> As you recall, we discussed this subject (S. 864) at a previous committee hearing on May 19, 1981. At that time, I indicated that we, in the administration support the objectives of S. 864 . . . However, we also testified that we believed the objectives of the Act could be achieved more efficiently and effectively by administrative means.

Senator Eagleton indicated his support of the OMB's efforts, and stressed the need for greater dedication on the part of the agencies to the goal of improving internal control.

> It is necessary to convince Federal managers that the responsibility to deliver funds and services carries with it the obligation to do so in a financially responsible way. This requires blasting loose some ingrained attitudes.

He was supported in this assessment by Mr. Charles Bowsher, the new Comptroller General.

> The requirements for Federal agencies to maintain internal administrative and accounting control systems have been mandated for over 30 years; however, most agencies have not given adequate priority to their internal control systems. The General Accounting Office has issued literally hundreds of reports and studies that disclose the fact that most agencies are operating systems vulnerable to physical losses and waste of Federal property . . . The passage of this act would, in simple terms, put teeth in the Acconting and Auditing Act . . .

The committee commends and supports the administration in its efforts to enhance agency financial management practices. However, because of the long history of neglect on the part of the agencies in this area and in an effort to buttress OMB efforts to increase agency awareness of the need for strong internal controls, the committee believes legislation is necessary. S. 864 is recommended by the committee for these reasons.

V. Section-by-Section Analysis

Section 1 indicates the short title of the bill, "The Financial Integrity Act of 1982."

Section 2 of the bill describes the "Purposes and Findings" upon which the committee has based the need for the legislation. The findings of the committee include: fraud and waste are more likely to occur from a lack of effective systems of internal accounting and control; effective systems of internal accounting and administrative control provide the basic foundation upon which a structure of public accountability must be built; and effective systems of internal accounting and administrative control are necessary to provide assurance that Federal assets and funds are adequately safeguarded as well as to produce reliable financial information for the agency.

Section 3 includes the definitions used in the bill.

Section 4 would amend Section 113 of the Accounting and Auditing Act of 1950 by adding at the end a new subsection requiring the head of each executive branch agency to prepare a report describing that agency's system of internal controls and indicating whether the agency head believes the internal controls used in the agency provide reasonable assurance of meeting the objectives for such systems to be established by the Comptroller General pursuant to subsection 6 of the bill. The reports must be issued by the agencies no later than December 31 of this year and by December 31 of each succeeding year.

All reports from the agencies must be submitted to the President and he has the responsibility to forward those reports to Congress and to the public. The committee does not intend that the President alter the substance of any agency reports but rather that he review them to ensure that the agencies have provided adequate and useful information which can be used by the Congress to assess the current condition of agency internal controls systems.

The agency heads must sign the reports attesting to their concurrence in its contents and indicate in the reports whether or not they believe their agency's internal controls fully comply with the standards established by the Comptroller General for agency internal controls systems as described in the GAO document "Policies and Procedures Manual for Guidance of Federal Agencies." If their systems do not comply, the report submitted by the agency heads must specifically identify any material weaknesses in the agency's internal controls system and describe the agency's plans and timetable for correcting the weaknesses identified in the agency's system.

In requiring these reports, the committee wishes to make clear that it does not intend for these reports to be voluminous and full of unnecessary detail. They should provide only enough information to accurately and fairly portray the current state of each agency's internal controls system.

Section 5 of the bill requires the Director of the Office of Management and Budget, in consultation with the Comptroller General, to establish guidelines for the evaluation of agency systems of internal control to ensure that they comply with GAO standards. It is important to note here that the guidelines issued by OMB are not the same as the standards for systems of internal control developed by GAO.

"Guidelines" would include the format for the reports to be issued by the agencies, guidance on control mechanisms to utilize in establishing systems of internal controls and requirements for assessing the performance of agency systems. "Standards" to be used by the agencies in judging their systems are those GAO has already developed in its "Policies and Procedures Manual for Guidance of Federal Agencies." The issue is described in Section 6 more fully.

Section 6 clarifies the authority of the Comptroller General to prescribe standards for internal controls within the agencies. Standards provide the criteria by which controls are measured and deemed adequate.

The General Accounting Office has traditionally provided standards on internal controls for use in Federal agencies. As required by the Accounting and Auditing Act of 1950, GAO has promulgated accounting principles and standards for 30 years. These accounting standards have included extensive coverage of internal controls, have been updated over the years, and are available in the GAO "Policies and Procedures Manual for Guidance of Federal Agencies." In addition, GAO has promulgated auditing standards which are required to be followed by auditors examining any aspects of the use of Federal funds. These standards also contain extensive discussions on internal control standards.

The recently issued OMB Circular (A–123 on the subject of internal control standards), sets forth examples of eight standards of internal controls. The committee believes these are good examples of standards and is confident that any additional standards GAO would develop in the future would not conflict with the standards established in Circular A–123. For this reason, the committee does not believe the enactment of this bill would require the rewriting of the Circular. However, when changes are made in GAO standards in the future, the committee expects these to be promptly reflected in appropriate changes in OMB's guidance and further expects the GAO to consult with OMB are early and as completely as possible when changes in their standards are being considered.

VI. Evaluation of Regulatory Impact

Paragraph 11(b)(1) of Rule XXVI requires each report accompanying a bill to evaluate "the regulatory impact which would be incurred in carrying out the bill."

S. 854 will have no regulatory impact on the economy. It does not authorize any additional regulation of activities in the private sector or impose any new record keeping or reporting requirements on any segment of the public. The bill may impose some regulatory requirements on the agencies but the additional cost is expected to be minimal.

VII. Estimated Cost of the Legislation

Pursuant to Section 403 of the Congressional Budget Act of 1974, the Congressional Budget Office has reviewed the cost implications of S. 864. The following is CBO's estimate of the potential costs of this legislation:

U.S. CONGRESS,
CONGRESSIONAL BUDGET OFFICE,
Washington, D.C., January 11, 1982.

Hon. WILLIAM V. ROTH, Jr.,
Chairman, Committee on Governmental Affairs,
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: Pursuant to Section 403 of the Congressional Budget Act of 1974, the Congressional Budget Office has reviewed S. 864, the Financial Integrity Act of 1981, as ordered reported by the Senate Committee on Governmental Affairs, December 9, 1981.

The bill amends the Accounting and Auditing Act of 1950 to require each executive agency to establish standards of internal accounting and administrative controls in accordance with standards prescribed by the Comptroller General. The bill would also require the Director of the Office of Management and Budget (OMB) to establish guidelines for the evaluation by agencies of their internal accounting and administrative control procedures.

CBO estimates that the initial effort required to establish the standards and guidelines to be developed by the General Accounting Office (GAO) and OMB will cost approximately $130,000. The level of effort required of GAO after the standards and guidelines are in place is not expected to increase significantly. The additional effort required of the agencies and OMB will depend on the requirements embodied by these guidelines and standards. If the new criteria merely modify existing procedures, little additional effort will be required and costs would be expected to be minimal. If, however, the new criteria require significantly more effort than is required by existing procedures, substantial costs could result.

Should the Committee so desire, we would be pleased to provide further details on this estimate.

Sincerely,

RAYMOND C. SCHEPPACH
(for Alice M. Rivlin, Director).

VIII. RECORDED VOTES IN COMMITTEE

In compliance with paragraph 7(c) of rule XXVI of the Standing Rules of the Senate, the rollcall votes taken during committee consideration were as follows:

Vote on amendment in the nature of a substitute for S. 864:

YEAS—4	NAYS—2
Senator Danforth	Senator Eagleton
Senator Mattingly	Senator Sasser
Senator Rudman	
Senator Roth	

Final passage: Ordered reported, 9 yeas, 0 nays.

YEAS—6	NAYS—5
Senator Danforth	Senator Eagleton
Senator Cohen	Senator Chiles
Senator Mattingly	Senator Nunn
Senator Rudman	Senator Sasser
Senator Roth	Senator Levin (proxy)[1]
Senator Stevens (proxy)[1]	

[1] By Committee rules, proxy votes are counted for recording purposes only on final passage.

IX. Changes in Existing Law

In compliance with paragraph 12 of rule XXVI of the Standing Rules of the Senate, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italic, and existing law in which no changes are proposed in shown in roman):

(Section 113 of the Accounting and Auditing Act of 1950, as amended (31 U.S.C. 66a).)

TITLE 31, UNITED STATES CODE

MONEY AND FINANCE

* * * * * * *

CHAPTER 1A—ACCOUNTING AND FINANCE

* * * * * * *

Subchapter II—Accounting and Reporting in Executive Agencies

* * * * * * *

§ 66a. Establishment and maintenance of systems

(a) The head of each executive agency shall establish and maintain systems of accounting and internal control designed to provide—

(1) full disclosure of the financial results of the agency's activities;

(2) adequate financial information needed for the agency's management purposes;

(3) effective control over and accountability for all funds, property, and other assets for which the agency is responsible, including appropriate internal audit;

(4) reliable accounting results to serve as the basis for preparation and support of the agency's budget requests, for controlling the execution of its budget, and for providing financial information required by the Office of Management and Budget under section 21 of this title;

(5) suitable integration of the accounting of the agency with the accounting of the Treasury Department in connection with the central accounting and reporting responsibilities imposed on the Secretary of the Treasury by section 66b of this title.

(b) The accounting systems of executive agencies shall conform to the principles, standards, and related requirements prescribed by the Comptroller General pursuant to section 66(a) of this title.

(c) As soon as practicable after August 1, 1956, the head of each executive agency shall, in accordance with principles and standards prescribed by the Comptroller General, cause the accounts of such agency to be maintained on an accrual basis to show the resources, liabilities, and costs of operations of such agency with a view to facilitating the preparation of cost-based budgets as required by section 24 of this title. The accounting system required by this subsection shall include adequate monetary property accounting records as an integral part of the system.

(d) (1) To ensure that the requirements of subsection (a) (3) of this section are fully complied with, the head of each executive agency shall, on the basis of an evaluation conducted in accordance with guidelines prescribed under paragraph (5) of this subsection, prepare a report describing whether the agency's systems of internal accounting and administrative control are sufficient to provide reasonable assurance of meeting the objectives of such systems as specified in subsection (d) (6) of this section. Such report shall be issued by each agency no later than December 31, 1982, and by December 31 following the end of each fiscal year thereafter.

(2) The reports shall be signed by the head of each executive agency and addressed to the President. Such reports shall also be made available to Congress and the public.

(3) The reports shall indicate whether—

(A) the agency's systems of internal accounting and administrative control fully comply with the requirements of subsection (d) (6) of this section; or

(B) such systems do not fully comply with such requirements.

(4) In the event that the head of an agency prepares a report described in paragraph (3) (B), the head of such agency shall include with such report an identification and description of any material weaknesses in the agency's systems of internal accounting and administrative control and the plans and schedule for correcting any such weaknesses.

(5) By June 30, 1982, the Director of the Office of Management and Budget, in consultation with the Comptroller General, shall establish guidelines for the evaluation by agencies of their systems of internal accounting and administrative control to determine such systems' compliance with the requirements of subsection (d) (6) of this section. The Director, in consultation with the Comptroller General, may modify the format for the reports required by subsection (d) (1) or the framework and guidelines for conducting the agency evaluations from time to time as deemed necessary.

(6) Internal accounting and administrative controls shall be established in accordance with standards prescribed by the Comptroller General, and shall provide reasonable assurances that—

(i) all obligations and costs are in compliance with applicable law;

(ii) all funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and

(iii) all revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the assets.

X. ADDITIONAL VIEWS OF SENATOR JIM SASSER

In this era of fiscal austerity, better management can, in my view, considerably reduce instances of fraud, waste and abuse in government programs. That is why I am an original cosponsor of S. 864, The Financial Integrity Act. I commend Senators Roth and Eagleton for their leadership in gaining unanimous approval by the Governmental Affairs Committee for the measure.

Passage of S. 864 promises better systems of management control within the Federal agencies which would decrease the likelihood of costly errors or outright fraud. The responsibility would rest squarely upon the Federal agency heads, who would be required to do a yearly evaluation of the adequacy of systems of internal accounting under their control.

The need is great. Calls to the General Accounting Office "Hotline," which was instituted in 1979 at my request, have reported over 32,000 cases of mismanagement within the Federal agencies. Officials of the GAO fraud task force estimate that one in every three of these calls warrants investigation.

A GAO study, released last year, shows that internal control weaknesses in the government agencies are to blame for the "billions of dollars lost annually through fraud, waste and abuse." Indications are that more stingent and effective internal auditing controls, such as S. 864 would encourage, could prevent many of these cases from ever happening.

Evidence gathered by both the General Accounting Office and the Office of Management and Budget, in response to my inquiries shows that more than $34 billions in Federal loans are now delinquent because of the failure of the Federal agencies to collect on bad debts. In other words, in the rush to spend every last dollar appropriated by Congress, the agencies have paid scant attention to managing their resources.

I am pleased to note that the Governmental Affairs Committee has also approved S. 1249, legislation to increase the efficiency of government-wide efforts to collect debts owed the United States. This bill is based on my own legislative initiative in the 96th Congress. I heartily endorse its continued progress in the 97th Congress.

The legislation goes hand-in-hand with S. 864, The Financial Integrity Act, in directing improved procedures for accountability and control with the Federal agencies. Instituting simple procedures such as documentation of financial transactions, separation of fiscal duties and routine inventory counts can make a big difference in the efficiency and effectiveness of agency management.

To strengthen accountability within the Federal system, the Governmental Affairs Committee has also approved S. 807, the Federal Assistance Improvement Act. Title II of this bill, which I had a hand in shaping, puts into statute the widely endorsed "single audit" concept. That is, once every two years, recipients of Federal grants must arrange an independent audit of the operation of their organization. The General Accounting Office has endorsed this approach as a far more effective use of audit resources than the current grant-by-grant system.

This measure, too, fits together with the Financial Integrity Act and the Debt Collection Act, to strengthen government-wide accountability for Federally enacted programs.

There is just no room in the current Federal budget for waste, fraud or abuse. Government must work with fewer resources, such as money and manpower, than in the past. The passage of the Financial Integrity Act of 1981 is one more step toward tightening up the management of programs. I strongly endorse its provisions.

JIM SASSER.